

Inflation

September 2014

Release date: 17 November 2014

	Sep 14	Aug 14	Jul 14	Jun 14
Headline*	1.1	2.5	1.9	1.5
Domestic^	-0.5	-0.4	-0.8	-1.1
Imported^	1.6	2.8	2.7	2.6
Underlying*	0.3	0.5	-0.5	-1.0

*Year-ended growth

^Percentage point contribution to year-ended growth

Domestic prices ease over the year to September

Headline inflation eased in September 2014, driven by decreases in prices of both imported and domestic food. Major contributor to lower imported prices is the 3% depreciation in the New Zealand dollar, relative to Tongan Pa'anga over the month. The main decline for imported food prices were for Meats, fish & poultry category, particularly for chicken. Decline in domestic food prices was mostly driven by decreases in prices of Fruits & vegetables, mainly for tomatoes, carrots, and capsicums. These items are around their harvesting season.

In year-ended terms, headline inflation rose by 1.1%, but remained well-below the reference range. The imported component drove the increase, due mainly to rises in food prices, particularly for Meat, fish & poultry. Increases in prices of Clothing and shoes also contributed to the higher imported prices. Prices of the domestic component fell slightly, driven mainly by declines in food prices. The main contributor was the decline in Fruit & vegetables prices, offsetting trivial increases in Cereal products and Dairy farm and vegetable products. Underlying inflation, which excludes energy and imported foods, contributed around 3 percentage points increase to inflation over the year.

Looking forward, the NRBT expects headline year-ended inflation to increase slightly in October, and to be about 1% by the end of 2014. This reflects a lagged effect from recent increase in imported food prices, together with market expectations for lower world oil prices, and the impact of the August-September drought on domestic prices. Domestic fuel prices for October fell in accordance to Ministry of Commerce,

Tourism and Labour, which we expect to ease about 0.2 percentage points from October's inflation.

Uncertainties affecting world food and oil prices, and local weather patterns, pose the largest risk to the inflation outlook.

With domestic inflation easing and headline inflation well below our reference range of 6-8%, there are no inflationary pressures on the NRBT's monetary policy stance in the near term.

Inflation Breakdown*					
	Weight	Month-ended		Year-ended	
	%	Change	Contribution to total	Change	Contribution to total
		%	ppt	%	ppt
CPI	100	-1.2	-1.2	1.1	1.1
Imported	57.8	-1.2	-0.7	2.6	1.6
Food	27.9	2.5	-0.6	3.8	1.1
<i>Fruit and vegetables</i>	0.9	0.0	0.0	11.8	0.1
<i>Meats, fish and poultry</i>	14.6	-3.2	-0.6	6.6	1.1
<i>Dairy farm and vegetable products</i>	3.2	0.6	0.0	3.2	0.1
<i>Cereals and cereal products</i>	3.5	0.4	0.0	-1.1	0.0
<i>Other food</i>	5.7	-1.9	-0.1	-2.5	-0.1
Transportation	11.5	-1.8	-0.2	-2.2	-0.3
<i>Private</i>	2.9	0.0	0.0	0.0	0.0
<i>Public</i>	8.6	-2.4	-0.2	-2.8	-0.3
Tobacco and Alcohol	4.5	0.0	0.0	-0.2	0.0
<i>Tobacco</i>	2.9	0.0	0.0	-0.1	0.0
<i>Alcohol</i>	1.6	0.0	0.0	-0.3	0.0
Household Operation	3.5	0.1	0.0	-0.4	0.0
<i>Domestic Power & Fuel</i>	1.1	-1.8	0.0	-0.3	0.0
<i>Household Appliances</i>	1.2	0.0	0.0	0.1	0.0
<i>Household supplies & services</i>	1.2	0.1	0.0	-3.1	0.0
Clothing and Shoes	3.2	3.0	0.1	16.2	0.5
Housing	0.8	-1.0	0.0	-0.1	0.0
Miscellaneous	6.4	0.0	0.0	4.2	0.3
Domestic	42.2	-1.2	-0.5	-1.2	-0.5
Food	17.8	-2.7	-0.5	-2.7	-0.5
<i>Fruit and vegetables</i>	6.5	-6.3	-0.3	-7.9	-0.5
<i>Meats, fish and poultry</i>	3.7	-0.7	0.0	-3.8	-0.2
<i>Dairy farm and vegetable products</i>	0.5	0.7	0.0	2.2	0.0
<i>Cereals and cereal products</i>	3.4	-2.6	-0.1	3.7	0.1
<i>Other food</i>	3.7	0.0	0.0	0.6	0.0
Transportation	17.3	0.0	0.0	-0.1	0.0
<i>Private</i>	6.0	0.0	0.0	0.0	0.0
<i>Public</i>	1.4	0.0	0.0	-0.1	0.0
Tobacco and Alcohol	4.7	0.0	0.0	0.0	0.0
<i>Tobacco</i>	5.2	0.0	0.0	0.0	0.0
<i>Alcohol</i>	1.7	0.0	0.0	0.0	0.0
Household Operation	0.1	0.0	0.0	-0.4	-0.1
<i>Domestic Power & Fuel</i>	1.6	0.0	0.0	-1.1	-0.1
<i>Household Appliances</i>	1.5	0.0	0.0	0.0	0.0
<i>Household supplies & services</i>	0.8	0.0	0.0	0.0	0.0
Clothing and Shoes	0.7	0.0	0.0	0.0	0.0
Housing	0.5	0.0	0.0	0.0	0.0
Miscellaneous	3.5	0.0	0.0	2.1	0.1
Underlying CPI measures					
Ex. Energy**	81.4	-1.2	-1.0	1.8	1.4
Ex. imported food	72.1	-0.8	-0.6	0.0	0.0
Ex. energy and imported food	53.5	-0.6	-0.3	0.6	0.3

* Due to rounding and Tonga Department of Statistics errors some data may not aggregate precisely.

**Excluded from the 'Ex energy' index is imported transportation and 'domestic fuel and power' component of 'Household operation'.

Source: Tonga Department of Statistics

